The common agricultural policy and the eu budget economics essay

The Treaty of Rome, in July 1958, formed the foundation for a unified Europe via the implementation of the general objectives for the CAP. " The CAP was established as a means of rectifying the deficit in food production within Europe through supporting internal prices and incomes" (Blair 123-124). The CAP succeeded in realizing its initial goals of increased production and productivity, stabilized markets, secured supplies, and farmer protection. However, the system included problems, which became apparent as the Community established a surplus for most of its agricultural products. First, the CAP increased output beyond the market's need via the guaranteeing of prices through intervention and production aids. Second, the very success of the Cap caused tension within the Community's trading partners as subsidized exports affected the market, and thirdly, the desire to produce more food brought with it environmental damage to certain regions (Blair 123-4).

The legal base for the CAP is defined in Articles 32-38 in Title II of the EC Treaty, in which, Articles 33-34 form the basic foundation for the CAP. Article 33 lists the objectives of the CAP as a means, " to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture, to stabilize markets, to assure the availability of supplies, and to ensure that supplies reach consumers at reasonable prices" (europa. eu. int). Through Article 34 came the creation of the Common Organization of the Agricultural Markets (COM). These COM's were to take on one of three different forms, depending on the product. They successfully eliminate obstacles to intra-Union trade while also keeping a common customs barrier with respect to countries outside the Union. Results of the COM's include a unified market in which products move freely between nations, community preference, in which EU products are always given preference, price advantage over imported products, and financial solidarity in which all expenses by the CAP are covered by the Community budget.

The CAP has had a long history of reform, and is nowhere near perfect. The first attempt at reform came just ten years after its implementation. In 1968, the Mansholt Plan in which he aimed at rationalizing farming with the community, giving farmers an adequate income and reducing the burden of subsidies in the economy was put into effect in an attempt to reduce the number of people in the agriculture business and to promote more efficient means of agricultural production. In 1972, the extensive food surpluses were targeted through the creation of structural measures designed to modernize European agriculture. This attempt at reform is generally regarded as a failure because many of the problems it tried to fix were still left unchecked. In 1983, a publication was released entitled, The Green Paper, which sought to balance the on-going differences between supply and demand through improvements in production. In 1988, the European Council agreed on various reform measures. The most important was the " agricultural expenditure guideline," which limited the percentage of CAP expenditure in the overall budget. In 1991-92 the future of the CAP was addressed through what has been called, " The MacSharry Reforms" in which the reforms included the cutback of agricultural prices to make the products more competitive, compensation for farmers that incurred a loss in income, and environmental protection. “ The reform of 1992 was generally regarded as successful, with positive effects on European agriculture. However, international trends, the enlargement towards Central and Eastern Europe, the preparation of the single currency causing budget constraints, the increasing competitiveness of products from non-member countries, and a new round of World Trade Organization negotiations forced further adaptation of the CAP” (europa. eu. int). In July 1997, “ Agenda 2000” was created to address many of the important issues facing the EU and the CAP. The key focuses of this new agenda were the reinforcement of the competitiveness of agricultural commodities in domestic and world markets, the promotion of a fair standard of living, the creation of extra sources of income for farmers, a new rural development policy, revamped environmental considerations, better food quality and safety, and the simplification of CAP legislation.

The European Union’s common agricultural policy protects and subsidizes agriculture so heavily as to bring serious social losses to the Economic Union. The policy creates inadequacies in the agriculture sector as well as other sectors of society such as manufacturing, textiles, and service industries. Furthermore, “ there have been many economic consequences of the CAP, including the high level of protection, the burdens on consumers, taxpayers, and the EU budget, environmental damage, the harm to international trading relations, and the failure to raise farmers’ incomes” (Howarth 4).

There have been a number of negative effects on the European Union countries. First and foremost, the Common Agricultural Policy has kept agricultural prices in the member countries above world market prices. “ The CAP has encouraged production of certain products to the extent that net importers of these products have become net exporters” (Rosenblatt 9). Also, the CAP has contributed to large agricultural net export or stock-building by the European community. This has contributed to the CAP hindering the economies of the EU member countries. Higher food prices, which the CAP causes, and which fall hardest on the least well off, hinder economic development and reduce international competitiveness and EU employment. Consumers lose twice under this policy since they have to pay higher prices for their good and pay taxes to subsidize the agricultural sector.

The CAP has also led to inefficiencies in production and the European Union’s total budget. The European Union’s expenditures on agriculture consume roughly 45 percent of their total budget (Rosenblatt 36). The expenditures are paid to keep farmers from letting land go idle, and there is no condition on what types of crops are to be grown on this land. Under the Common Agricultural Policy, farmers tend to harvest more profitable crops on land that is not as suitable for their growth. For example, producers have switched over from producing wheat and oil seeds to butter because the EU has such a high price support for it. This causes the market to go from excess supply to excess demand, and the producers are becoming a net exporter of butter (Pugel 312). Thus, farmers may actually grow crops for which production costs are not covered by the prevailing market prices, but payments make production of these crops profitable to them.

The CAP has also caused concern for the environment as well as concerns for the economy. Because of the subsidies provided to farmers, they have the incentive to produce more agricultural products because they will receive more money. The CAP price policies have encouraged intensive farming and the overuse of antibiotics, pesticides, and nitrates. This has put a strain on the environment and has concerned the people of the European Union. The policy did not foresee farmers overproducing and over using chemicals, but this has become an indirect cost created by the policy. Europeans are also concerned with food safety because of farmers using so many chemicals in production. Farmers have been getting away with using the chemicals and unsafe practices because of the limited food safety regulations. Policymakers believed that high price supports would lead to higher food safety and quality. " High support prices do not increase either food safety or quality: indeed, minimum prices and intervention guarantees encourage low quality and standardized produce" (Consumers in Europe group).

Under the CAP, the European Union countries have shifted from net importers to net exporters of food products. With the EU subsidizing the agricultural sector so heavily, as to raise some sectors, such as non-grain crops, to eight times larger than it would normally be at (Borrell 18). This has drawn resources and labor out of other sectors of the economy and into the agricultural sector because of the subsidies. " These costs and resource misallocation reduce the total output and income of the European Union" (Borrell 18). Borrell charts the percentage changes in specific industries due to the CAP in the EU. For example, the CAP has caused negative changes in the following industries: construction and utilities are down one percent, the service industry is down two percent, the manufacturing sector in down almost five percent, and other primary products are down almost six percent (Borrell 20). This information demonstrates that CAP is taking away resources from these service type industries and placing it in the agricultural sector. The transference of these resources is coming at the cost of the consumers, taxpayers, or society as a whole.

The effects of the EU Common Agricultural Policy have not just altered the European Union’s economy, but it has also restructured other economies throughout the world. The CAP has caused farmers to produce a surplus of agricultural goods in the EU. This has led to dumping of these products into other countries. As a result, importing countries have shifted away from producing agricultural goods to goods such as manufacturing, construction, services, and other primary goods. The United States and Canada have experienced a decrease in agricultural production due to the CAP. Combined, the United States and Canada have experienced a decrease of approximately 8. 1 percent across primary agricultural goods (as much as 13 percent for non-grain products to as low as 2. 9 percent for meat products) (Borrell 23). Also, with cropping exports down between 26 and 45 percent, this shows implications that output has been dropping in the cropping sector. The effects of the CAP have also shifted resources in Australia and New Zealand from agriculture to other primary industries. These countries have experienced an expansion in the mining and forestry industries of 7. 5 percent (Borrell 21). These examples display how the CAP has suppressed exports of agricultural products and has led to the allocation of resources into other industries in other countries.

It is apparent that the Common Agricultural Policy has been and is causing problems not only in the European Union, but it has also been creating problems in the rest of the world. What the CAP has effectively done to the European Union is that it has caused it to become a net exporter of agricultural products when it should be a net importer of these goods. The EU's policy has changed the world markets for agricultural goods and has imposed significant costs to the EU's consumers and taxpayers. Consumers and taxpayers in the EU bear most of the cost of 70 to 80 million US dollars a year, which is used to increase farmers' incomes. The taxpayers and consumers are responsible for this increase in cost, which in turn causes an increase in unemployment. "…The CAP was responsible for a loss of one million jobs in the EU manufacturing sector alone. The EU unemployment rate is currently around 10 percent, which is currently 40 percent higher than the OECD (Organization for Economic Co-Operation and Development) average" (Borrell 20). It is clear that the Common Agricultural Policy is responsible for increases in unemployment, increases in taxpayer cost and consumer burden, drops in farmer income, and harm to international relations. If the CAP were not implemented, many of these issues would be alleviated.

There have been significant losses to the European Union as a whole because of the CAP. To understand, however, what this does to an individual country, an analysis of Britain experience must be looked at. In 1973, Great Britain entered the European Community and, therefore, accepted the Common Agricultural Policy (CAP). The acceptance of the CAP caused Britain to move from an agricultural market of free trade and cheap food, to an agricultural market that became the pawn of the European Union’s protectionism (Harvey 2). The CAP’s main goal was, “ to keep agricultural market’s stable, ensure that farmers earn a fair living, and provide consumers with affordable food supplies” (Think quest Library 2). The CAP achieved many goals it set out to accomplish. The very generous price supports to farmers and technological innovation have caused surpluses that are not being offset by a decreasing demand.

The CAP has run into criticism in recent times by both British consumers and taxpayers alike, and many citizens and even farmers are calling for its reform. One recent event that caused the European Union to rethink the restrictions of the CAP was the outbreak of mad cow disease in Britain. British cattle that were infected by mad cow disease experienced nervous system breakdown and eventually death. The beef industry suffered in Britain and many of the cattle had to be put to death because they were not suitable to eat. Therefore, the European Union, in 1996, had to impose a British beef export ban (Barclay 21). The ban, and the fall in beef consumption in the UK market, caused the United Kingdom cattle market to lose sales totalling 800 million pounds (Barclay 22). The British were not allowed to export tainted beef to member countries and many member countries feared to import any British beef (Barclay 22).

The CAP has hurt Britain in more ways than one. British consumers have been burdened by higher domestic agriculture prices because of CAP policies when they could easily go buy the same product cheaper in the world market. The taxpayers in Britain have been burdened by taxes the European Union imposes to finance subsidies to farmers. Undoubtedly, the United

Kingdom would still have to face the mad cow dilemma regardless of its prior entry in the Union. However, the British would be able to develop a unilateral policy in which they would be free from the strict requirements of the European Union.